

2011 HOTSPOTS

MIDDLE EAST AND NORTH AFRICA

We have selected three distinct countries that reflect the region's varying degrees of political risk spanning the Levant, North Africa and the Gulf.



LEBANON

By tradition and through political will Lebanon remains open to foreign investment. Its free market economy, highly educated workforce and favourable government policies have traditionally made it attractive to investors. Lebanon's banking and financial sector is considered comparatively stable and well developed for the region, while its tourism industry has experienced significant growth in recent years, although high levels of corruption and burdensome red tape detract from its strengths.

Lebanon's greatest weakness is its unstable political environment, which makes it a highly risky investment destination. Pending indictments of Hezbollah figures as a result of the Special Tribunal investigation into the assassination of Rafic Hariri (Lebanon's Prime Minister between 2000-2004) has weakened Lebanon's fragile political coalition.

The indictments represent the highest regional risk for 2011 as they will escalate tensions between Sunni and Shia Muslims, increasing the potential for the current Government to fall, leaving Lebanon's civilian population and foreign investors exposed to sectarian conflict and the potential for civil war. The domestic conflict has potential to spread regionally, given Lebanon's factions are at the forefront in the stand-off between the Arab world, Iran and Israel.

For nervous investors, Western observers and Lebanese alike security and political stability are of the utmost importance. The indictments will be just the beginning of a drawn out legal process, further complicating the investment climate for the country. But stability and justice should not have to be mutually exclusive outcomes.

It is Iran, Syria and Saudi Arabia who will determine Lebanon's stability. We do not predict sustained sectarian violence in 2011 in response to the release of the Tribunal's findings. We expect Hezbollah political leadership to be offered the opportunity to distance themselves from those implicated. With Saudi backing, Syria will act as mediator to help negotiate a solution between the Lebanese State and Hezbollah, with Damascus keen to ensure an increase in its influence over Lebanon as it seeks to regain the foothold it lost with its withdrawal of troops in 2005.

LEBANON AT A GLANCE*:

Corruption Perception (2010): 127 / 178

Global Competitiveness (2010-2011): 92 / 139

Ease of Doing Business (2010): 113 / 183



LIBYA

The economy of this sparsely populated North African state is sustained by the energy sector. With some of Africa's largest stockpiles of oil and gas reserves, Libya has a strong international negotiating position. But despite its relative political stability and economic wealth, we expect Libya to remain a relatively risky investment destination.

Corruption in Libya is on the increase and remains a barrier to doing business. Despite proactive efforts to re-engage the international community since 2003, Libya's economy remains largely under state control. While some progress for foreign investment has been made, including the amendment of state laws to allow for an increase in foreign ownership of local enterprises, there are significant political, legal and cultural barriers to investment.

Targeted growth sectors include tourism (including hotel development, and airport upgrade and expansion), housing, power, construction and transport. Libya's banking system remains dominated by the state and we do not expect 2011 to bring about a liberalisation of the financial services market. Infrastructure development remains a national priority, supported by billions of dollars and a National Development Plan introduced in 2006. While public works and the upgrade of infrastructure and social services (including railways, roads, bridges, schools and hospitals) offer extensive opportunities, investors should remain cautious, given Libya's ambitious central planning has seldom been matched in execution or delivery.

The most significant threats to Libya's growth and desirability for foreign investment is the mercurial nature of its leader – Muammar Qaddafi – and Libya's internal politics. Tensions exist between Qaddafi's reform minded son, Saif, and the more conservative elements of Libya's government – not least his brother, Muatim, who heads a part of Libya's security apparatus. Qaddafi's changeable nature and domestic tensions make this a politically risky country and lead some to question Libya's absolute commitment to its own advancement when it can so flippantly turn on and off its diplomatic relations with foreign countries, highlighted by its very public breakdown with Switzerland in 2010. There is no security for investors that Qaddafi would not withdraw contracts unexpectedly to counter a diplomatic stand-off yet again in 2011.

While Libya's plans are ambitious, we do not expect many of its government sponsored infrastructure development projects to make enough progress in 2011 to meet their original 2012 delivery timeline. Politically Libya's progressive veneer will continue to be exposed, as its more progressive spokespeople become further sidelined. Security concerns will continue to dictate the EU and US relationship with Libya as the EU seeks to secure Mediterranean waters from transitory migrants and the US combats the spread of al-Qaeda cells in North Africa.

LIBYA AT A GLANCE*:

Corruption Perception (2010): 146 / 178

Global Competitiveness (2010-2011): 100 / 139

Ease of Doing Business(2010): Data Not Available



QATAR

This wealthy peninsula remains more culturally conservative than its higher profile Emirati neighbours such as Dubai or Abu Dhabi, yet has introduced progressive policies aimed at securing and diversifying its future economic growth. We view Qatar as a low risk investment destination for 2011.

Qatar has balanced foreign relations between East and West. It agreed a security co-operation pact with Iran in the first quarter of 2010 and is on good terms with Syria as well as significant non-state actors such as Hezbollah and Hamas. Its government settled border disputes with Bahrain and Saudi Arabia in the past decade and has introduced several bilateral agreements aimed at strengthening its political and economic relations regionally and internationally. At the same time, Qatar has good relationships with the US and EU. Qatar's close relationship with the US is evidenced by the existence of a US airbase on Qatari soil.

Qatar's geographical position bordering the Persian Gulf, Saudi Arabia and the UAE and its strong fiscal performance helped it to weather the economic downturn. Qatar is firmly focused on the future as it strives to diversify its economy away from oil and gas and has strong banking and insurance sectors which now offer a foundation to develop other growing industries, including manufacturing. Meanwhile its successful bid for the 2022 World Cup will add urgency to domestic infrastructure projects focused, among other things, on building a public transport network and high speed rail links.

In 2011 we see no change to Qatar's low risk political environment. With renewed business confidence, Qatar is well placed to continue to consolidate its position in the Gulf as a pragmatic investment destination with healthy financial and manufacturing sectors and an entrepreneurial environment. As infrastructure development begins in earnest in 2011, there will be increased focus on renewable energy sources and a positive knock-on effect for the real estate market.

QATAR AT A GLANCE*:

Corruption Perception (2010): 19 / 178

Global Competitiveness (2010-2011): 17 / 139

Ease of Doing Business'(2010): 50 / 183

* FOOTNOTES

The *Corruption Perceptions Index*, sponsored by Transparency International, ranks almost 200 countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.

The *Global Competitiveness Index* is produced in collaboration with leading academics and a global network of research institutes and provides users with a comprehensive assessment of 139 country's strengths and weaknesses related to national competitiveness.

The *Ease of Doing Business Index* is created by the World Bank. Higher rankings indicate better regulations for businesses and stronger protections of property rights. The index is based on the study of laws and regulations, with input and verification by government officials, lawyers, business consultants, accountants and other professionals in 183 economies who routinely advise on or administer legal and regulatory requirements.